

Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 NEA-11 IO-13 ISO-00 AID-05 CIAE-00

COME-00 EB-08 FRB-03 INR-10 NSAE-00 ICA-11

TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04 SIL-01 OMB-01

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R 180124Z MAY 78

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TO SECSTATE WASHDC 3298

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AMEMBASSY LONDON

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EO 11652: NA

TAGS: ECON EFIN ETRD UNCTAD AS

SUBJECT: MORE FRASER ON THE COMMON FUND BEFORE JOINT MEETING OF
AIMM AND AIME

REF: (A) CANBERRA 2800, (B) CANBERRA 1360 (NOTAL, (C) LONDON 0680,
(D) NEW DELHI 62191, (E) LONDON 5976

1. SUMMARY. SPEAKING BEFORE JOINT MEETING OF AUSTRALIASIAN
INSTITUTE OF MINING AND METALLURGY (AIMM) AND AMERICAN INSTITUTE OF
MINING, METALLURGICAL AND PETROLEUM ENGINEERS (AIME), PRIME
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MINISTER FRASER, IN ADDITION TO MAKING "TOUR D' HORIZON" OF
AUSTRALIAN ECONOMIC POLICY AS IT AFFECTS THE MINING SECTOR
(THESE ASPECTS OF FRASER SPEECH WILL BE SUBJECT OF SEPARATE
MESSAGE) TOUCHED ON HIS NOW FAMILIAR THEMES OF THE IMPORTANCE
OF THE MTN'S REACHING SATISFACTORY DECISIONS ON PRIMARY
PRODUCTS, THE NEED TO USE THE DEVELOPING WORLD TO HELP DEVELOPED
COUNTRIES RECOVER FROM THEIR ECONOMIC PROBLEMS, AND THE COMMON

FUND. END SUMMARY.

2. ON THE MTN, FRASER SAID, "REGRETTABLY SO FAR THE DISCUSSIONS HVE NOT GREATLY PROGRESSED. IT IS NOT YET CLEAR THAT AGRICULTURAL PRODUCTS AND OTHER COMMODITIES WILL BE INCLUDED IN THE FINAL AGREEMENT. SOME OF THE MAJOR INDUSTRIALISED COUNTRIES ARE PROPOSING A 40 PERCENT CUT IN TARIFFS ON MANUFACTURES PRODUCTS, AND SOME CLAIM THAT THIS WOULD CONSTITUTE A SIGNIFICANT BREAKTHROUGH. BUT WHEN THIS SEEMINGLY ATTRACTIVE PROPOSAL IS EXAMINED, IT QUICKLY BECOMES EVIDENT THAT BY ITSELF IT WOULD PROVIDE ONLY A VERY LIMITED BASIS FOR EXPANDING WORLD TRADE. WITH AVERAGE TARIFFS ON MANUFACTURED GOODS BEING ABOUT 10 PERCENT, THE CUTS WOULD AVERAGE AS LITTLE AS ONE HALF OF ONE PERCENT PER YEAR, FOR 8 YEARS STARTING IN 1980 - HARDLY THE SPARK TO IGNITE THE ENGINES OF WORLD TRADE EXPANSION. WHAT IS MORE, THE PROPOSED CUTS DO NOT AFFECT TRADE WITHIN THE EEC OR TRADE IN NON-MANUFACTURED GOODS. THEY WOULD COVER LESS THAN ONE-FIFTH OF TOTAL WORLD TRADE, AND THEY COULD BE QUICKLY CANCELLED OUT BY EVEN MINOR MOVEMENTS IN CURRENCY EXCHANGE RATES.

"I IMAGINE THE PROPOSED CUTS MAY HAVE SOME VALUE TO THE MAJOR DEV- ELOPED COUNTRIES - UP TO 40 PERCENT OF EXPORTS FROM JAPAN, THE EEC AND THE UNITED STATES WOULD BE COVERED. BUT THEY WOULD COVER NOT MORE THAN FIVE PERCENT OF AUSTRALIA'S EXPORTS, AND NO MORE THAN FIVE PERCENT OF THE EXPORTS OF MANY DEVELOPING COUNTRIES.

FOR MTN TO BE A SUCCESS, THE INCLUSION OF AGRICULTURAL PRODUCTS AND OTHER COMMODITIES IS VITAL.
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SUCH WIDE-RANGING TRADE LIBERALIZATION NEGOTIATIONS AS THE MTN MAY NOT OCCUR AGAIN THIS CENTURY. THE OPPORTUNITY MUST BE TAKEN AND TAKEN NOW TO REDUCE THE PROTECTIONISM WHICH OBSTRUCTS WORLD TRADE. THE MTN COULD LEAD TO A NEW INTERNATIONAL COMPACT OF HISTORIC SIGNIFICANCE IF MEANINGFUL REDUCTIONS IN BARRIERS CAN BE ACHIEVED FOR MANUFACTURED AND FOR AGRICULTURAL PRODUCTS. IT IS NOT ENOUGH MERELY TO AVOID AN INCREASE IN PROTECTIONISM. AVOIDING A NEGATIVE OUTCOME IS NOT A SIGN OF SUCCESS. IT MAY APPEAR TO HAVE SOME LIMITED BENEFITS FOR THE DEVELOPED WORLD; IT WOULD DO NOTHING FOR THE THIRD WORLD. THE INTERESTS OF THE DEVELOPED COUNTRIES WOULD ONCE AGAIN HAVE BEEN PROMOTED WHILE THE DEVELOPING NATIONS INTERESTS AS COMMODITY PRODUCERS WOULD HAVE BEEN VIRTUALLY IGNORED."

3. ON HIS CONCEPT OF "REVERSE OPERATION BOOTSTRAP" FRASER MADE THESE COMMENTS:

"WE CANNOT LOOK WITH CERTAINTY TO CONSUMER DEMAND IN DEVELOPED COUNTRIES PROVIDING A SUFFICIENT DRIVE TO GENERAT THE EXPANSION WE NEED. ANY MEANINGFUL RESPONSE TO THE PROBLEM OF DEPRESSED GLOBAL DEMAND MUST INVOLVE THE DEVELOPING COUNTIRES AND EXPAND THEIR ACCESS TO THE DEVELOPED WORLD'S MARKETS. THIS WOULD HELP THE DEVELOPING NATIONS TO MEET MORE EFFECTIVELY THE BASIC HUMAN NEEDS OF THEIR PEOPLE. INCREASED DEMAND FROM THE DEVELOPING COUNTRIES WOULD

PROVIDE ADDITIONAL GROWTH IN THE WORLD ECONOMY AND THE EXPANSION IN
WORLD MARKETS WHICH IS SO URGENTLY REQUIRED. THIS WOULD HELP GET
OUR ECONOMIES

OPERATING TO CAPACITY, AND PROVIDE JOBS FOR OUR UNEMPLOYED.

"THE DEVELOPING COUNTRIES VIEW THE WORLD TRADING SYSTEM AS
INHERENTLY BIASED AGAINST THEM. RELYING HEAVILY ON COMMODITY TRADE,
THEY HAVE BEEN SEVERELY HURT BY FALLING COMMODITY PRICES, ADVERSE
MOVEMENTS IN EXCHANGE RATES, AND IN SOME CIRCUMSTANCES, DIFFICULTIES
IN OBTAINING ACCESS TO MARKETS IN THE DEVELOPED COUNTRIES.

"IN 1975, THE LATEST YEAR FOR WHICH FIGURES ARE AVAILABLE, THE TERMS
OF TRADE FOR THE NON-PETROLEUM EXPORTING DEVELOPING WERE WORSE
THAN AT ANY TIME IN THE PRECEDING 15 YEARS. BETWEEN 1971 AND 1976,
OFFICIAL AID DOUBLED. IT WOULD IN FACT HAVE HAD TO INCREASE
FOURFOLD - THAT'S AN ADDITIONAL \$22 BILLION - JUST TO COMPENSATE FOR
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THE DETERIORATION IN THE NON-OIL DEVELOPING NATIONS BALANCE OF
PAYMENTS - A DETERIORATION LARGELY CAUSED BY A WORSENING IN THEIR
TERMS OF TRADE.

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4. ON THE COMMON FUND, FRASER MADE THE FOLLOWING REMARKS:

"IN THE LIGHT OF THIS, IT IS NOT SURPRISING THAT THE DEVELOPING COUNTRIES WANT TO STABILIZE WORLD COMMODITY PRICES, THROUGH THE INTRODUCTION OF A COMMON FUND FOR COMMODITY TRADE. THERE ARE SIGNS THAT AT LAST ALL COUNTRIES ARE MOVING AWAY FROM INFLEXIBLE POSITIONS ON THIS ISSUE AND GENUINELY WANT A CONCLUSION BENEFICIAL TO ALL. AUSTRALIA IS CONVINCED THAT A COMMON FUND CAN BE ESTABLISHED, WHICH WILL HELP COMMODITY PRODUCERS AVOID DISASTROUS CYCLICAL PRICE DROPS, AND WILL HELP CONSUMERS BY AVOIDING INFLATIONARY CYCLICAL PRICE RISES.

"THIS BELIEF WAS REINFORCED AT THE COMMONWEALTH MINISTERIAL MEETING
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LAST MONTH IN LONDON WHICH BROADLY ENDORSED AUSTRALIA'S POSITION ON THE FUND."

5. COMMENT: FRASER'S REMARKS AT THE JOINT MEETING OF AIMM AND AIME CONTAINED NOTHING NEW AND IN FACT WERE NOT AS SPECIFIC AS HIS REMARKS BEFORE THE RECENT COMMONWEALTH HEADS OF GOVERNMENT REGIONAL MEETING (CHOGRM) IN SYDNEY (REFTELS A AND B) AS THEY CONTAINED NO RPT NO REFERENCE TO AUSTRALIA'S NEW STANCE ON DIRECT GOVERNMENT CONTRIBUTIONS OR THE FINANCING OF "OTHER MEASURES". IT IS SIGNIFICANT, HOWEVER, THAT FRASER CHOSE TO DEVOTE SO MUCH ATTENTION TO THESE THREE THEMES BEFORE AN AUDIENCE WHICH MIGHT NOT NORMALLY BE EXPECTED TO RECEIVE THEM WITH OPEN ARMS. IT IS ALSO INTERESTING TO NOTE THAT FRASER SEEMS TO BE TAKING CREDIT FOR WHAT HE CALLS THE "BROAD ENDORSEMENT" OF THE COMMON FUND CONCEPT BY THE RECENT LONDON COMMONWEALTH MINISTERIAL MEETING (REFTELS C AND E), WE NOW HAVE BOTH AUSTRALIA AND INDIA TAKING CREDIT FOR THE SAME ACHIEVEMENT (REFTEL D).

ALSTON

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Message Attributes

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